

**Agenda for Japanese Business
in the Global Economy**

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This paper explores the agenda for Japanese business in the global economy. Pertinent issues are many, but I will address five important aspects: 1) cross-cultural communication; 2) the trade imbalance problem; 3) Japan's industrialization process in historical perspective; 4) Japan's wage and employment systems; and 5) the agenda for internationalization of the Japanese chemical industry.

Cross-Cultural Communication

For most Americans, Japan is still a black box, difficult to understand and impossible to penetrate. This state of affairs is unfortunate when we consider that the two nations together generate about 40 percent of world GNP and a quarter of world trade. Japan's imports of industrial goods, agricultural produce, and services from America¹ are about equal to combined U.S. exports to the United Kingdom, Germany, and France. In addition, nearly a half million Americans are employed by Japanese subsidiaries in America today. And yet, the economic superpowers across the Pacific are often unable to bridge the cultural gap. Communication barriers still prevent constructive dialogue and the building of profound trust between the two countries.

Americans do not fear confrontation or conflict to the same degree as Japanese. They usually do not hesitate to say "no." On the other hand, Japanese usually do not say "no." This

¹ \$47.8 billion in 1992. Japan's exports to the United States were \$97.2 billion in the same year.

is the reason why the little book *The Japan That Can Say No* by Shintaro Ishihara and Akio Morita became surprisingly popular a few years ago. Instead of saying "no," Japanese often use ambiguous words like "difficult." We tend to use such expressions to minimize friction, avoid confrontation and keep from hurting others' feelings.

It is extremely unfortunate when misunderstandings interrupt business negotiations and government-to-government dialogue because of the unconscious use of ambiguous expression. In my view, U.S.-Japan trade friction is partly due to misunderstanding, or lack of effective cross-cultural communication skills, causing irritation and even distrust between the parties. More often than not, problems arise from differences in styles of communication. Thus, one of the most critical agendas for Japan is to improve communications with the rest of the world.

Frankly speaking, I was struck by the news that Prime Minister Hosokawa said "no" to President Clinton when they met in Washington in mid-February this year. Many Japanese businessmen were surprised because no Prime Minister had ever said "no" before, at least not in public. Of course, there are some legitimate reasons why Japan had to say "no", and I will consider these later. But I think it's sometimes better saying "no", however agonizing, than saying "yes" and implementing little in practice. The same principle applies to corporate management. Top management have to say many painful "no's." Otherwise, companies will fall into bankruptcy.

In politics and business alike, Americans communicate directly. They come right to the point and ask direct questions. Indeed, American tradition is reflected in this strong intellectual inclination to define things and events, to clarify respective positions, and to choose one of two alternatives. Since the time of Aristotle, such clear-cut distinctions have provided Westerners

with their basic pattern of thought and behavior, making it rather difficult linguistically and philosophically to recognize the existence of a so called "fuzzy in-between."

Japanese, on the other hand, try to gather information without asking direct questions, and they prefer to talk around a subject. In the traditional Japanese communication style, frankness and bluntness are almost taboo; even exactness is to be avoided because it is considered arrogant and impertinent. Japanese are able to communicate fully through nuance and suggestion, and do not depend as heavily on actual "words" as do Americans and Europeans. To Japanese, true meaning is buried between the lines of words, and neither explicitly expressed nor thought through in a way that would be immediately understood by Westerners.

This style of communication creates difficulties for less patient Americans, who is likely to ask, "Why beat around the bush? Why not just come straight out and say what's on your mind? They are going to find out anyway, so why waste time?" I sometimes tell my Japanese colleagues that while the "who-knows-and-doesn't-speak approach" is a virtue in Japan, in America "not-to-tell-even-if-one-knows" is considered insincere.

Two books on cross-cultural communication in Japanese business, *On Track with the Japanese* by Patricia Gercik, managing director of the MIT Japan Program, and *Hidden Differences* co-authored by Edward T. Hall and Mildred R. Hall, are illuminating. They provide readers with problem-solving case studies that give a detailed account of Japanese business, industry, and social conditions and help develop the perceptions and skills needed to "do business with the Japanese." Based on a number of interviews with successful American executives in Japan, *Hidden Differences* offers the following suggestions:

- 1) Be patient.
- 2) Take the long-term view.
- 3) Learn the language.
- 4) Learn new ways to communicate.
- 5) Respect consensus and compromise.
- 6) Accept personal responsibility for your job.
- 7) Be thoroughly prepared.
- 8) Learn to depend on your Japanese advisors.
- 9) Pay great attention to detail.

I'd like to add my own tenth commandment, "relax and enjoy." Despite the unique characteristics of the Japanese business style, there is an increasingly high degree of commonality between the two countries. And yet, enlightened understanding by each partner is now more important than ever.

To accomplish this, both sides must develop the informational, negotiating, and communication skills necessary for truly getting their message across. In a modest attempt to create cross-cultural training opportunities, a number of Japanese companies have designed exchange programs which deepen American students' understanding of Japanese history, culture, language and business practices.

The Trade Imbalance Problem

Japan's persistently larger external surplus with the United States has been regarded as a source of trade conflicts and protectionist sentiments in the United States. Hence, the trade imbalance problem remains one of the principal bilateral issues with which both countries must deal.

The most striking features of the U.S. trade deficit with Japan are: a) the amount is huge²; and b) it has been generated within a relatively short period of time. Indeed, in reviewing the trade imbalance problem, one should remember that for nearly four decades between the end of World War II and 1981, the United States generated a trade surplus in almost every year.

In spite of Japan's efforts to shift from an export-led to a domestic demand-led economy, the large trade surplus persists. It is primarily caused by dynamic changes in the export product mix and the J-curve effects resulting from the constant appreciation of the yen vis-a-vis the dollar (i.e., when the dollar-denominated export price was raised, the nominal value of Japan's exports expanded, which offset the equally substantial increase in the volume of imports.)³

Unfortunately, the issue of improved market access and its relationship to trade imbalance reduction has not been viewed in a balanced fashion by American trade negotiators. Although it is often assumed that opening foreign markets for American exports will improve the fundamental position of the U.S. current account deficit, this is not necessarily the case.

Textbook macroeconomics tell us that a country's current account balance is determined by domestic investment(I) and savings(S) behavior relative to the investment(I') and savings(S') behavior of foreign countries. The U.S. current account deficit must be offset by capital inflows from surplus countries such as Japan, and the amount of this capital inflow must be equivalent

² The U.S. trade account deficit in recent years: \$101 billion in 1990, \$66 billion in 1991, \$83 billion in 1992. It increased to \$119 billion in 1993, reflecting the higher growth of the U.S. economy.

³ Trends in the exchange rate after the Plaza Accord: 239 yen to the dollar in 1985; 169 yen to the dollar in 1986, 145 in 1987, 128 in 1988, 138 in 1989, 145 in 1990, 135 in 1991, 127 in 1992, and 111 in 1993.

to the amount by which U.S. domestic investment(I) exceeds domestic savings(S) generated by American households, businesses, and federal and state governments.

Changes in market access will, therefore, affect the current account only to the extent that they change savings or investment. Hence, the process of correcting the trade imbalance involves **a dynamic adjustment of macroeconomic fundamentals**, including economic growth rate, savings and investment, and productivity, which can change only gradually over time. This is in contrast to the views of U.S. government officials and many Congressmen who still seem to maintain that the U.S. trade problem can be solved if other nations improve U.S. access to their markets or increase their pace of economic activity. These pronouncements have no solid basis in economic reality.

Although expansion of domestic demand by Japan and other nations might help, it certainly will not automatically bring about a significant reduction in the U.S. trade deficit. In order for the U.S. merchandise trade deficit to be corrected solely through an expansion of the economies of other countries, the annual economic growth rate would have to be some 20 percent. This, of course, is a sheer impossibility. One Japanese economist has estimated that Japan's annual growth rate would have to be more than 30 percent in order to correct the existing bilateral trade imbalance. Such a high growth rate might be the dream of Japanese businessmen, but it is absolutely unrealistic.

Consider also the fact, reported by the U.S. Commerce Department, that about 75 percent of Japan's exports to the United States are classified as related-parties trade, such as trade between parent companies and their subsidiaries. Indeed, as much as 35 percent of Japan's exports to the United States are vital for American competitiveness because they are U.S.

imports of either original-equipment-manufacturer (O.E.M.) products, or parts and components indispensable to American assembly lines. Trade negotiators often lose sight of the fact that our two economies are truly becoming a part of each other. The U.S. trade deficit with Japan was nearly 60 billion dollars last year, but the annual sales of American subsidiaries in the Japanese market almost equaled this amount.

These gross misunderstandings about the fundamental causes of the U.S.-Japan trade imbalance fuel trade friction and international disputes. They also raise a serious question about whether the "New Trade Negotiating Framework" between the U.S. and Japanese governments will contribute significantly to reducing the bilateral trade imbalance.⁴ The answer is it will, but not much.

For Japan, the measures include huge public expenditures. Most of the items of reform raised by the U.S. government including, *inter alia*, reform of land use for housing (particularly in the Tokyo metropolitan area), streamlining of the complicated Japanese distribution system, reform of the double pricing mechanism and some aspects of the *keiretsu* system, will undoubtedly improve living standards for the Japanese people. But it should be recognized that these measures will not contribute to any significant reduction in the bilateral trade imbalance.

For the United States, remedial measures include the reduction of the federal budget deficit and the improvement of competitiveness. The federal budget deficit for fiscal year 1995 is estimated to drop to \$176 billion. This amount is equivalent to 2.5 percent of GDP and is

⁴ The "Structural Impediment Initiative" talks which began in September 1989 were dropped after an agreement was reached in June 1990 on the policy measures which were to be taken by both governments. The new "Trade Negotiation Framework" talks were initiated by President Clinton and Prime Minister Miyazawa in July 1993 shortly before Miyazawa left office.

substantially lower than earlier forecasts. Such a reduction will mark a significant turnaround in the American economy and ultimately will contribute to alleviating unhealthy trade friction.

The American public recognized that the Reaganomics plan launched in 1981 did not have the desired effect on the American economy. Instead of increasing tax revenues through an expansion of capital investment, a huge budget deficit was generated, and a sharp increase in imports made the United States the largest debtor nation in the world within a decade. The cumulative net external debt amounted to some \$520 billion at the end of 1993. However, it would be fair to say that an important byproduct of Reaganomics was the enormous increase in U.S. imports which pulled Europe and Asia out of the prolonged stagnation in the 1970s.

At any rate, use of the U.S. trade balance as a measure of success in liberalizing trade is unrealistic and is likely to generate even more frustration. We must understand that market access improvement is not a panacea, and that sound domestic economic policies will clearly have a much greater impact. Unfortunately, the Clinton administration's trade negotiating team seems determined to take an ad hoc approach to the essentially long-term structural problems.

I have heard that in the recent U.S.-Japan Framework Negotiations, the U.S. sought numerical targets through a three-P strategy: **probe**, **push**, and **punish**. The Japanese strategy on the other hand can be summarized in one word: No. This confrontational atmosphere resulted in a breakdown in the negotiations, and a deep distrust developed between the negotiators.

Remedial measures for correcting the imbalance should not be "managed trade."⁵ Such

⁵ Managed trade was first suggested by the Advisory Committee for Trade and Policy Negotiations (ACTPN) in its report "Analysis of the U.S.-Japan Trade Problem," which was submitted by U.S. Trade Representative Carla A. Hills in February 1989.

an approach assumes that government or industry can predetermine how much consumers wish to buy. The reasoning behind this recommendation is that the "closed" Japanese market is so unique that a certain portion of the sector-by-sector market shares in Japan should be set aside for U.S. companies.

I would like to emphasize that in industries of rapid technological innovation, such as computer science and electronics, a "results-oriented" approach to the trade imbalance--which assumes that the government can quantitatively predetermine the "results" to be achieved--is destined to failure. This type of "managed trade" approach cannot function without disrupting the free flow of goods and services--the very cornerstone of global economic prosperity. Thus, there is an inherent contradiction between the policy goal of reducing trade imbalances and the policy instruments for achieving this end. This is precisely why Japan had to say "no" in the recent series of bilateral negotiations and the Summit meeting in Washington in February.

Perhaps "numerical targets" are just a technical matter. It is more important to note that neither side disagreed on the ultimate objectives of reducing Japan's excess surplus and further opening its market. These tasks must be carried out, with or without numerical targets. By saying "no" to the American side, Japan may have silently confirmed its responsibility to meet these objectives.

We should also remember that government is not the only player. In economic diplomacy, the government sets the stage for the play. But it is the people and businessmen of both countries who actually perform. And most likely, they are members of private organizations formed across the Pacific. I believe that in many areas private sector arrangements are desirable and may work just fine, provided that both American and Japanese companies do

their homework.

Japan's Industrialization Process in Historical Perspective

A country's past necessarily shapes its subsequent course of development. Hence, historical considerations are essential for understanding Japanese business.

Broadly speaking, in order to develop modern capitalism, society must be so organized as to bring about maximum accumulation of capital in order to expand the economic pie. For this, two types of human beings must coexist in society: **first**, the capitalist who is theoretically entitled to consume the larger portion of the pie but is brought up not to make large expenditures but to save; **second**, the worker who diligently does his or her job, as if it were an end in itself. The spread of Protestantism and the rise of the capitalist class in the West is described by the German sociologist Max Weber in the classic *The Protestant Ethic and the Spirit of Capitalism*. In America, savings, hard work and education can be traced back to Benjamin Franklin and, even earlier, to the Pilgrims.

In the case of Japan, the people had little exposure to Protestantism, but a group of thinkers in the 18th century, led by Shozo Susuki and Baigan Ishida, preached the virtue of diligence and hard work as part of religious practice. They argued that devotion to work, whether farming, commerce or craftsmanship, leads to religious enlightenment and that profit making and saving money are not immoral activities. This mode of thought represents the spirit of Japan's pragmatic capitalism which persists to this day. In Japan, saving money came to be thought of as a virtue, and economic growth a national objective. The strong desire to save reflected a general awareness among Japanese that their national economy was too small and that

they would always need to husband their limited natural resources for future growth.

Throughout history, Japan has had many centuries of exposure to Eastern thought. Japan did not reject these ideas, but rather took great pains to digest and amalgamate them in a natural blending process with her own traditional culture. Buddhism and Confucianism were introduced to Japan from China via Korea in the early- to mid-sixth century. These philosophies had a profound influence on the Japanese. From them, the Japanese have assimilated two principles which constitute essential elements of their thinking: Confucian "harmony" and the Buddhist concept of "transcendence of one's ego," developed by the Upanishads in ancient India. The latter implies that through a long process of training, reflection, and meditation, an enlightened individual will come to realize that the inner essence of man is the same as the inner self of the universe. Such a metaphysical identity of man with the universe underlies Japanese religious beliefs and social conventions. This principle serves not only as a goal of Japanese spiritual life, but also provide the foundation for the concept of "teamwork" embedded in Japan's modern corporate culture.

Japan's introduction to the West took place in a relatively shorter period of time and within the context of a national crisis. In the mid-19th century, Japan had its first Arnold Toynbee-type "encounter" with Western culture and the English language. In 1853, Commodore Perry knocked at Japan's door, giving birth to Japan's full-fledged acquaintance with the West.

Japan in the mid-nineteenth century was a small and very vulnerable, undeveloped agricultural nation. The encounter with Western posers, and the advanced science and technology they represented, was a reluctant but inevitable awakening for Japan. The resulting spread of modern technology and industrialization as well as education and political awakening

changed the face of Japan, marking the end of Japan's comfortable seclusion. Some view this as the beginning of "Japanese-style diplomacy," whereby the government reluctantly responds to external pressure, even using it to their advantage in order to change domestic policies.

In 1868, when Emperor Meiji recaptured power from the Tokugawa Shogunnate, the new Meiji government began laying the foundation for a modern Japan. Acutely aware of the huge technological gap between Japan and the West, Japanese leaders gave serious thought to building a strong and competitive national economy. Frantic absorption of technologies and institutions from Europe and America began by the government's dispatching of a number of study missions to these countries and with invitations to foreign scholars to come to Japan.

Japan's principal objective was to catch up with the West as quickly as possible. Burning with nationalism, Japanese seized upon the idea of *wakon yosai* as an approach to national development. *Wakon* means literally Japanese ethos, and *yosai* is Western technology. Therefore, "Wakon Yosai" means introducing Western technology, while keeping the Japanese ethos intact. This was a spontaneous response to the threat of forfeiting independence to superior European powers. Hence, the earnest wish of the Japanese, from the time of the Meiji Restoration has been to "catch up" with the West, and the Japanese have harbored these aspirations ever since. At the same time, traditional spiritual values of the Japanese remained unchanged, despite the rapid introduction of Western innovations. Japanese have retained their culture and values, their way of life, and their family structure in the process of building a modern nation that rivals any in the West. Because of various favorable factors, both internal and external, Japan accomplished its objective of modernization and industrialization.

I would like to touch upon Japan's *keiretsu*, or networks of industrial relationships,

though I am afraid that this may be tantamount to opening Pandora's box. Keiretsu are viewed as a significant barrier to trade and have been the subject of a series of hearings and debates in Washington and in Tokyo. MIT's Patricia Gercik declares in *On Track with the Japanese*: "trade barriers and a complicated distribution system made market access difficult, and this situation is compounded by keiretsu organization of having many different companies under the same umbrella."

I think Gercik's account of keiretsu is oversimplified. Without going into detail, I would point out that there are three types of keiretsu: (a) traditional groups of affiliated companies (zaibatsu) such as Mitsui, Mitsubishi and Sumitomo; (b) supplier-manufacturer relationships as in the case of automobile manufacturers, including Toyota, Nissan and Honda (they are financially independent); and (c) distribution networks as in the case of electric appliance and electronic companies including Sony, Kyocera, Nintendo and Panasonic which do not have strong business ties to any zaibatsu group.

Procurement practices of the U.S. and Japanese automobile industries provide an illustrative example. Japanese automakers rely on outside sources for some 70 percent of their parts. On the other hand, the Big Three U.S. automakers led by General Motors produce about 60 percent of their parts in-house. Their traditional procurement policy for the remaining 40 percent is to take whatever the market provides if the price is right. In extreme cases, over 100 different parts manufacturers supply the same item. This is not the case in Japan since long-term business relationships are cultivated with a limited number of suppliers. New contracts are not simply awarded to the lowest bidder. Typically there is fierce competition among a handful of bidders before contracts are awarded.

Changes in the supplier selection process have been taking place in the American automobile industry. The concept of long-term ties between automobile manufacturers and their parts suppliers and of close cooperation between the two from planning through commercial production is gaining broader appeal. For several years now, American automobile manufacturers have been putting more emphasis on rewarding quality and innovation. They have conducted a vigorous campaign to put quality on the road.

MIT's 1987 publication *Made in America* gives a cogent argument for well coordinated "teamwork" in the product development process. One strategy recommended in the book is "to cooperate with suppliers rather than treating them as adversaries by establishing long-term relationships." The book recommends that manufacturers and subcontractors take part in joint research, design, and development activities, and that standards be established for both the company and industry so the benefits of improved performance will spread. Such cooperation between manufacturers and parts and components suppliers from the so-called "design-in" stage is becoming a common practice in the American automobile industry.

MIT's recommendations have received due attention in the United States, and there are already a number of success stories. Indeed the vigorous recovery of American automobile manufacturers is well known among industrial analysts. The cooperative relationship between the manufacturer and the supplier, a fundamental characteristic of keiretsu, is called "partnership" in America.

The changes taking place in Japan are in many ways converging with the American system. Clearly there remain some differences. But in reversing stereotypes, our two countries are not drifting apart from each other, but rather coming closer together. It is particularly

interesting that both Americans and Japanese are trying to meet the challenges of global competition in the same way, with many identical managerial values and skills. There is little doubt that the U.S. and Japanese economies are deepening their interdependence. Our economic relations are increasingly intertwined, with strands of both "competition" and "collaboration."

Japan's Wage and Employment System

Let me turn to the "seniority-based wage" and "lifetime employment" systems. Each arose from Japan's industrialization process and have been regarded as a fundamental strength of the Japanese economy.

The seniority-based wage system was first instituted in Japan in the early 20th century among white-collar employees of large companies, and had become a general practice by the mid-1950s. Lifetime employment, too, was found mainly among large companies, which offered an employee life-time job security in return for his commitment and loyalty to the company.⁶

Under the seniority wage system, higher wages were paid to older, more experienced workers. Since corporate labor costs constantly increased, there was the risk of creating an uneconomic wage structure. To resolve this problem, private enterprises had to intensify their workplace training in order to improve the skills and abilities of workers as they became older. Large enterprises did not just provide technical training; they expanded their efforts to include

⁶ According to a comparative study by the Organization for Economic Cooperation and Development (OECD) in 1991, 27 percent of American workers had been with their current employer for less than one year; 62 percent for less than five years. In the case of Japan, only 10 percent of workers had been with an employer for less than a year, and 37 percent less than five years. Only 25 percent of American workers had been employed by the same employer longer than 10 years, compared with more than 40 percent in Japan, Germany and France.

cultural education and improved leadership skills. As a result, clubs for martial arts and other athletic activities, along with musical and other cultural activities were established within the companies. In addition, employees were able to deposit savings with the company's credit unions and receive higher interest than that offered by commercial banks. This encouraged the workers to save and also provided the enterprise with an additional source of capital.

Japanese companies were paternalistic. Among employees themselves and between management and employees, a feeling of solidarity prevailed. Companies were like large families. In this environment, workers saw themselves as part of the enterprise, and devoted their lives to the company rather than to a field of professional expertise. It was natural that Japanese workers felt strong ties of loyalty to their companies. When employees were transferred to new assignments by the company, in-house vocational training was provided at company expense. Some large companies established training centers for the exclusive use of their workforce.

Large enterprises offered higher salaries and more generous fringe benefits, and the opportunity for Japanese to enter these companies came only once in a lifetime, usually upon graduation from school or college. By and large, this system is still in place today. Japanese parents are acutely aware of the advantages that big organizations can offer their sons and daughters. Many parents who regret that they could not enjoy the opportunities of a higher education, give priority to their children's education over almost everything else.

Japanese companies have reached a high level of efficiency by encouraging **cooperation** rather than **competition** among employees. Competition between different companies, however, is fierce. Sony must compete with NEC, Panasonic, Sharp, Hitachi, and Toshiba. Similarly,

big industrial group such as Sumitomo must vie with Mitsubishi and Mitsui. The primary objective of Japanese management is to increase the status of their company vis-a-vis its competitors or to boost their company's status to the level of a large enterprise. To achieve either of these objectives, employees form a "team" and act as a unified group.

In Japan, management and labor share the feeling that they belong to the same company and share the same goal of corporate growth and prosperity. Union leaders have a broad understanding of the business environment faced by management. Corporate executives put more emphasis on improving the company's national and international position than serving shareholders. They believe that support of the workers is essential to the realization of corporate objectives. As a result, executives do not demand huge salaries for themselves yet are determined to provide workers with fringe benefits.

Let me emphasize that the "seniority-based wage" and "lifetime employment" systems are being undermined by real and mounting pressures, reflecting changes, particularly in the attitudes and values of younger employees and rapid industrial restructuring. Today, younger employees find the corporate culture less cohesive, and their identification with the company is decreasing. They seem more prepared than their parents to take risks and pursue career opportunities. For many young people, it does not seem unreasonable to forego the security of long-term employment for the opportunity to find a better job. Traditional patience with the seniority-based wage and promotion system has worn thin.

As in so many countries today, the older generation in Japan is worried about the decay in traditional values and the lack of a strong work ethic among the younger generation. There is increasing concern about middle-class Japanese families who raise their children in affluence,

providing for all their material needs. Quite often, the children, overprotected and indulged, are often unsure of themselves and their goals and lack a sense of responsibility and purpose in life.

Thus, in the quest for optimum rationalization and efficiency of company operations, emerging forces are causing considerable change in the employment system. These include: a) the globalization of business operations; b) the intensification of competition; c) the restructuring of Japanese industry; and d) rapid technological innovation in electronics, computer science and telecommunication systems. Companies must trim uncompetitive operations while continuing to invest in new lines of business. Innovative factory and office automation equipment make traditional skills less valuable, and some skills even become obstacles to streamlining of business operations through extensive use of sophisticated automation systems.

In the United States, many fine companies are reducing their payrolls while at the same time seeking to enhance the skills and involvement of workers who remain. They are vigorously pursuing the radical redesign of business processes known as "re-engineering." One of the great strengths of the American economy in contrast to that of Japan and most of industrialized Europe is its highly mobile labor market. What is happening in IBM, Dupont, G.M., AT&T, and other U.S. corporations is also happening in Japanese companies. Restructuring, downsizing, consolidation, joint-ventures, strategic alliances, partnership and M&A--Japanese newspapers and professional journals are full of stories about these corporate strategies, and they saturate the minds of managers and workers.

Naturally, transformation is inevitable for many of Japan's traditional corporate values and practices. Management has no choice but to focus on immediate strategy rather than long-

term policy, and on quick profits rather than stability. Continuity can no longer be guaranteed, and the status quo is no longer sufficient. Instead, Joseph Shumpeter's concept of "innovation through creative destruction" is gaining support.

On the whole, Japanese companies are becoming less paternalistic. There is even the danger that the feeling of solidarity which prevailed among employees and between management and employees will be weakened. Thus, there is a reason for change from the standpoint of management. Annual pay increases, particularly those that occur after the extension of retirement age, have become increasingly costly to the company. A gradual change in wage structure is underway in Japanese industry and one consequence is that the wage-level curve is flattening at an earlier point than had previously been the case.

Older employees are upset with the fragmentation of these time-honored systems. But they realize that they have little choice but to accept the inevitable. Some are finding it difficult to make the necessary adjustments, while others are successfully developing a new outlook and the confidence to get through the transition. They are beginning to discover the value of time and to rediscover the joy of the family. Their consumption and savings patterns are also changing. Reflecting these changes, various new industries are rapidly expanding: recruiters, temporary human resource agencies, executive search firms, fast-food joints, and media and entertainment businesses. These changes are remarkable by Japanese standards, but they are probably nothing new to Americans. The truth is that the Japanese system is starting to resemble the American mold.

A 1992 survey of 650 American and Japanese business executives and managers, jointly conducted by American and Japanese consulting firms, has revealed some interesting facts about

the changing priorities of management in Japan and the United States.⁷ In defining the characteristics which set excellent companies apart from others, 35 percent of the Japanese emphasized profitability and growth, while only 8 percent of Americans did. Conversely, 49 percent of Americans focused on customers and quality, while only 8 percent of the Japanese did. These contrasts are striking. Indeed, during the 1970s and 1980s it was Japan that put top priority on "quality," "customers," and "innovation." Today, these are the priorities of Americans. On the other hand, Japan's current priorities are "profitability," "growth," and "R&D," aspects which American companies emphasized some years ago.

Concerning the issue of key managerial roles for global competition, very interestingly, out of 16 choices, Americans and Japanese identified the same four roles as important now and in the future: 1) the champion of change; 2) multinational diplomat; 3) being an ethical role model; and 4) builder of alliances and coalitions.

Agenda for Internationalization of the Japanese Chemical Industry

Over the past several years, we have witnessed enormous geopolitical changes of historical importance in the world, particularly in Europe and North America, as exemplified by the end of the Cold War, the reunification of East and West Germany, the Persian Gulf War and the turbulence in Bosnia and elsewhere. We also saw the conclusion of NAFTA in 1993. What we are witnessing is perhaps not the "end of history" as Francis Fukuyama claimed, but a new beginning. In the world's economic picture, many more significant events are yet to

⁷ The survey was undertaken by the Alexander Consulting Group (ACG) and the Japan Management Association Consultants (JMAC) during the second half of 1992.

come, including the EC's drive to transform 12 separate countries into an integrated market with an aggregate population of some 340 million.

In the Asia-Pacific region, the newly industrialized economies (NIEs) including the "Four Tigers" of South Korea, Taiwan, Hong Kong, and Singapore are following a path of vigorous economic development. Singapore's per capita GNP is now higher than that of Great Britain. These countries have recently been joined by the expanding economies of Malaysia, Thailand, Indonesia, and China. The spread of modern technology and industrial processes and of education and political awakening is changing the face of these nations. I believe the rapid industrialization of China and other Asian countries will have a very significant impact on the world trade pattern. The return of Hong Kong to China is scheduled for 1997, and no one knows what political changes will occur on the Korean Peninsula.

We are on the threshold of a "borderless" economy and live in a wired world which moves faster than ever before. Change driven by technology has a speed of its own, and world markets are becoming essentially one. The growth of corporate activities is increasingly dependent on competitiveness in the world market. Companies must be competitive in terms of product quality, delivery and cost if they want to survive and prosper in the coming decades. Thus, the question that business managers must face on a daily basis is "Are we as good as the best in the world?"

Japanese are acutely aware of unprecedented changes in the international economic environment to which industrial organizations must speedily adjust if they want to prosper in the coming decades. Reflecting this, the key word of the current Japanese business strategy is "internationalization," or *kokusaika* in Japanese. It is the principal national agenda for action.

Many see it as a continuation of the modernization process of Japan's social and economic systems. Internationalization means not only mastering foreign cultures and languages, but also seeking Japan's own identity in the global community.

An increasing number of Japanese people believe that in the aftermath of the Cold War, Japan is at a crossroads of change. The emergence of Prime Minister Hosokawa and his administration last year reflects this change. Only history will tell if it indeed marks the end of the postwar period and the start of a new one. The fall of the Liberal Democratic Party (LDP) which had monopolized political power for 38 years, was perceived as almost revolutionary, symbolizing the people's demand for change--something the old political establishment could not accomplish. With the devastating effects of the burst of the "economic bubble" and the subsequent recession, profound changes in Japan's political, administrative and economic systems are urgently needed. Changes on the economic scene have been extensive and rapid, due to the increasing necessity for companies in the private sector to implement various survival strategies.

In the political and administrative systems, significant deregulation is yet to come. However, we must recognize that the speed of this change may not as fast as we would like. Reform and deregulation cause friction among the parties who want to maintain the status quo in order to protect their vested interests. For bureaucrats, giving approval is the very source of power, and so for many, deregulation is tantamount to a reduction in power for them and their organization. For those private industries which are protected or subsidized by the government, deregulation can mean the intensification of competition. Hence, given the strong vested interests involved, strong political leadership with the enlightened support of the people

is an essential prerequisite for overhauling Japan's political and administrative systems.

With political reform now in place, we can expect administrative changes ahead. To make the Japanese economy more domestic-demand oriented and to improve the living standards of the people, Japan must put its house in order. Her principal agenda for action should include deregulation and an overhauling of the real estate tax and building codes system.

Many times in the past, Japan has failed to act quickly and therefore has missed opportunities for its policies and measures to achieve maximum effect. And many times, disenchanted Americans have described Japan's efforts as "too little, too late." The problem seems mostly a matter of timing and manners.

During the Persian Gulf War, Japan made a monetary contribution of \$10 billion in support of efforts of the Allied forces dispatched to the Middle East. The pertinent Ministry questioned whether the amount should be paid in dollars or yen. The dollar was depreciating vis-a-vis the yen at that time. By the time the decision was made, the war was almost over. This was a case of "Too much but too late." Americans seem to take it for granted that social systems are man-made and can be reformed at will. In contrast, Japanese tend to think that their social systems are handed down by a governing body, and therefore not to be changed without unanimous consensus. This often produces a perception gap between the two countries, reflecting a difference in psychological time between Japanese and Americans--perhaps an interesting subject for psychoanalysts to tackle. At any rate, Japan must learn how to move proactively on its own, rather than always waiting till the last minute.

Japanese leaders are often caught in the dilemma. On the one hand, if the pace of economic development is slower, their performance does not measure up to the expectations of

the global community. On the other hand, if changes are brought about too quickly, the people will complain and society will become unstable. This is an extremely important problem to which Japan is struggling to find a feasible solution.

Given the fact that the U.S. and Japanese economies are closely intertwined, future talks between the United States and Japan should include an agenda for joint action to promote a broader range of techno-alliances, particularly in the fields of high-technology and international finance. In these fields, companies in the private sector can accomplish a great deal.

A number of techno-alliance projects already exist, for example, Motorola Japan. The company has three production facilities in Japan and is doing well. While it is competing with Japan's NTT in cellular phone marketing, Motorola has managed to become the biggest supplier of pagers to the same NTT. In semiconductor technology, techno-alliances between the major players are fairly complicated. Motorola collaborates with Toshiba, and Toshiba has technical tie-ups with IBM. Similarly, AT&T collaborates with NEC, Texas Instruments with both Hitachi and Fujitsu, and Intel with Fujitsu, Mitsubishi and Sharp Electronics Corporation. Such phenomena are not necessarily the monopoly of hi-tech electronics. American and Japanese competition and collaboration are progressing hand-in-hand in other industries as well, including automobiles, chemicals and steel. Let me briefly mention our activities and strategies at Sumitomo Chemical.

The company's sales in 1993 were \$8.4 billion out of which overseas sales accounted for one billion. After reaching a peak in sales and profits in 1991, the company's financial performance has been adversely affected by sluggish demand from our major customers, such as the automobile and electronics industries. Active capacity expansions in the petrochemical

industry worldwide have brought about a glut in the market, causing a sales decline for plastics.

Sales of specialty chemicals increased in 1992 over the previous year but remained almost at constant levels in 1993. Sales of pharmaceutical products such as natural alpha interferon and human growth hormone were brisk, compensating for decreases in sales of dyestuffs and agricultural chemicals. Epoxy resin for semiconductor use is one of Sumitomo Chemical's specialty chemical products, and we currently have about 60 percent of the world market.

Since the Japanese economy is in a deep recession following the burst of the bubble, it will take some time before the economy picks up. Sumitomo Chemical faces a tough business climate for 1994 and beyond. Hence, the company's immediate strategy includes the following measures: a) cost reduction through technological innovation and improvement of manufacturing processes; b) promotion of a horizontal division of labor with newly industrialized countries (NICs) in Asia; c) improvement of existing product mix; and d) development of new products. We need to sharpen our competitiveness by allocating managerial resources to our core business, improving R&D efficiency and streamlining operations.

Sumitomo also continues to pursue globalization as part of its strategy, though still on a modest scale. The company is trying to enhance activities in Southeast Asia, the United States and Europe. We established Sumitomo Chemical Asia Pte Ltd. in Singapore in 1992 for marketing of household insecticides and dyestuffs. The company has also decided to go ahead with an expansion of its petrochemical operations there. In the United States, we acquired an agricultural chemical company from Chevron Chemical, a subsidiary of Chevron Corporation in California, and in 1992 formed a partnership with Phillips Petroleum Company to manufacture and market high quality polypropylene resins in North America. We have also

acquired a distributor of agricultural chemicals in Spain.

We believe that there are many other opportunities for joint projects and strategic alliances in high technology industries, including electronics, biotechnology, pharmaceuticals, and new material science. In this time of change, we must not lose sight of the evolving global business environment. In my view, the three biggest changes which have affected Japanese business operations since the end of the Cold War are: a) the emerging Asia-Pacific economic region, including China, as a major supply source of extremely cost-competitive products; b) drastic appreciation of the yen vis-a-vis the dollar; and c) the rise and the collapse of the bubble economy. The combined effect of these elements has been devastating. According to a comparative survey conducted by Sharp Electronics Corp., the cost of labor (assuming the cost in Sharp's plant in Japan is 100 at the exchange rate of 101 yen to the dollar) is 66 in the United States, 32 in the U.K., 24 in Korea, 10 in Malaysia, 6 in Thailand and 3.5 in China.

In pursuing a strategy of globalization, the most important element is exchange rate stability. The value of money is a "measuring stick" by which we can gauge our performance and plan future investment. But, for Japanese companies, this measuring stick has either been rapidly shrinking or expanding. The dollar was equal to 125 yen in early 1993 but fell to almost 100 yen in August 1993. Japanese companies spent valuable development funds boosting the cost competitiveness of their products, only to have these achievements wiped out overnight by unpredictable swings of the foreign exchange market. Like a natural disaster, exchange rate fluctuations are completely out of our control, but they affect us most severely. It takes 8 to 10 years on the average for a pharmaceutical company to discover and develop a new drug. Therefore, unforeseen changes in the exchange rate add significant risk to a company's R&D

efforts.

By switching from a fixed to a floating exchange rate system almost 20 years ago, it was hoped that the values of national currencies would more accurately reflect the relative competitive strengths of the respective economies. Unfortunately, it did not work out that way. On the momentary front, the U.S., European, and Japanese markets are essentially one. There are no borders between New York, Tokyo and London. The aggregate amount of monetary transactions is estimated to be more than \$100 trillion a year, while the world trade of goods and services amounts to some \$4 trillion. I hope that the financial experts will work out a better exchange system in the future. But, alas, the magnitude of this financial issue appears to be so overwhelming that few people want to touch it.

Years ago we used to say that the Japanese economy will get pneumonia if the U.S. economy catches a cold. Nowadays if Japan develops pneumonia, the United States gets the cold. With Japan being hit hard by excess yen appreciation, the United States may face the unattractive scenario of a weaker dollar pushing up inflation and interest rates. The yen may also fluctuate against European currencies, adding further volatility to U.S. financial markets. The collapse of the dollar is a possible scenario in the world of "casino capitalism" described by Susan Strange of the London School of Economics.

But all of the world's nations are in the same boat. The only difference seems to be which country decides to jump into the water first. Whatever problems may occur, the United States and Japan must continue to build on each other's strengths. Despite their divergent interests, there is no doubt that both countries must cooperate to fulfill their joint obligations of global partnership in promoting economic growth and prosperity.